

**CLOVERPORT SCHOOL DISTRICT
FINANCIAL STATEMENTS**

JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
 Superintendent and Members of the Cloverport School District
 Cloverport, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund the Cloverport School District (the "District") as of and for the year then ended June 30, 2009, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditors' Contract – General Audit Requirements*, *Appendix II of the Independent Auditors' Contract – State Audit Requirements*, and *Appendix III of the Independent Auditors' Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about

whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund of the District as of June 30, 2009 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2009, on our consideration of Cloverport School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

The management's discussion and analysis and budgetary comparison information on pages 6 through 10 and pages 45 through 46, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cloverport School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Louisville, Kentucky
November 6, 2009

REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

CLOVERPORT INDEPENDENT SCHOOL DISTRICT – CLOVERPORT, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2009

The Cloverport Independent School District offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the audit.

FUND FINANCIAL STATEMENTS:

A fund is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental funds financial statements can be found on pages 13-17 of this report.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$325,727 and the ending cash balance was \$363,476.
- The Cloverport Independent School District and each of its schools met or exceeded all of their targeted goals according to 2009 NCLB reports. This means that according to national and state standards all schools made adequate yearly progress. Frederick Fraize High School received recognition from U.S. News and World report for being selected as one of the 33 "Best High Schools" for academic achievement. As a direct result of this academic achievement the District was awarded \$4.3 million for building construction and renovation in 2008. The new high school and middle school building was occupied in 2008, the elementary building was renovated in 2009 and the cafeteria and band room will be occupied in October 2009.
- Due to the deterioration of one of the current school buses the District purchased a 2009 72-passenger bus.
- The district gave a 1% salary increase to all certified employees and 1% to all classified employees at the beginning of the school year.
- Discover College on-line college classes were implemented with ten students enrolled.
- The General Fund had \$2.0 million in revenue, which consisted primarily of the state SEEK program. Other income was derived from property tax, utility tax and motor vehicle tax.

Excluding interfund transfers, there was \$1.8 million in General Fund expenditures. The ending cash balance was \$263,184.

II. OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event given rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statement outlines functions of the District that are principally supported by property taxes and intergovernmental revenues. The government activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Taxes and intergovernmental revenues support fixed assets and related debt.

The government-wide financial statements can be found in this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$470,000 as of June 30, 2009.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, building and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that

the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to pay these liabilities.

The District's financial position is the product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2009

As a result of the Board of Education implementing the GASB 34 accounting format, we can compare this year's data with last year.

	(a)	<i>FY 2008</i>	<i>FY 2009</i>
Total Assets		\$ 7,050,614	\$ 6,588,244
Total Liabilities		<u>6,569,236</u>	<u>6,169,917</u>
Net Assets		<u>\$ 481,378</u>	<u>\$ 418,327</u>
Restricted for Retirement		16,377	20,637
Certificates of Deposit		138,790	141,451

Comments on Budget Comparisons

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2009:

	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 253,146
State revenue sources	2,092,470
Federal sources	514,332
Investments	38,469
Other revenue	131,496
Enterprise Services	<u>218,180</u>
	3,248,093
Expenses:	
Instruction	\$ 1,640,209
Student Support Services	107,195
Instructional Support	174,981
District Administration	189,751
School Administration	90,017
Business Support	159,111
Plant Operations	231,601
Student Transportation	89,856
Food Service Operation	2,106
Community Services	41,712
Other	99
Depreciation	175,097

Interest	43,116
Enterprise Services	<u>210,964</u>
	3,155,815

b) General Fund Revenue

Of the total revenue recorded in the General Fund (Fund 1) the majority was derived from state funding (83%) with local taxes making up 12% of total revenue in the General Fund. Local taxes consist of property tax, motor vehicle tax, franchise tax and utility tax. Of the total expenditures in the General Fund, 74.6% was spent in salaries and 6.9% was spent for fringe benefits. Central support services expenditures consisted of the following percentages: Transportation 10.6%, Maintenance & Operations 27.2%, and Business Functions 12.6%.

III. BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30. Some projects operate on a different calendar year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$150,000 in contingency (5 .00%). The beginning cash balance for beginning the fiscal year is \$368,642.

The elementary and sports center suffered extensive ice damage to the roofs and over half of the sports center floor suffered water damage. While insurance should cover much of the replacement costs there could possibly be some significant cost to the district.

Significant Board action that impacts the finances in the new year budget include a pay raise for all employees, \$10,000 additional monies in the textbook program, \$14,000 in college tuition for junior and senior high students, an additional \$20,000 in accrued sick leave for retiring employees.

Questions regarding this report should be directed to the Dr. John D. Millay, Superintendent (270) 788-3910 ext. 204 or Anna Sue Brown, Finance Officer (270) 788-3910 ext 201 or by mail at PO Box 37, Cloverport, KY 40111.

**CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Cloverport Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Cloverport School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14 *"The Financial Reporting Entity"* and there are no component units included within the reporting entity.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Cloverport School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Cloverport School District Finance Corporation - On September 1, 1989, the Cloverport Board of Education resolved to authorize the establishment of the Cloverport School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board members of the Cloverport Board of Education also comprise the Corporation's Board of Directors.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charges to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements to each fund category - governmental, proprietary and fiduciary - are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which

**CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District uses the following funds:

- **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt services, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commissions' construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

- **Proprietary Fund Types**

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The *Day Care Program Fund* is used to account for the day care program supervised by the Board.

The *GED Testing Center Fund* is used to account for the activities in the GED program supervised by the Board.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

- **Fiduciary Fund Types (includes agency funds)**

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

- ***Agency Funds***

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to be a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Inventory

Supplies and material are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	7 years
Food service equipment	10-12 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

Bad Debts

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management, is based on historical experience, and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. At November 6, 2009, no allowance for future bad debts has been established, as it is management's opinion that losses, if incurred, would not materially affect the financial statements.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year.

Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year which includes the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. This budget must contain a 2% reserve but no greater than 10%.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year.

The Board has the ability to amend the working budget.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2009.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. Inventory in these funds consists of food and supply items and are stated as cost.

Compensated Absences

The District used the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated sick leave time when earned for all employees with more than five years of service.

Upon retirement from the school system, a certified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave. At June 30, 2009, this amount totaled \$20,637. While no accrual is recorded in the financial statements due to the contingent nature of this amount, management will budget an amount it feels appropriate on an annual basis. The balance of this is included as a reserved portion of the general fund.

The entire compensated absence restricted net asset balance is reported on the government-wide financial statements. This amount represents the amount due within and beyond the next operating cycle.

For governmental fund financial statements, compensated absences are reported as reservations of fund balances and expenditures as payments come due each period upon the occurrence of employee resignations and/or retirements. These amounts are recorded in the account "Reserved for compensated absences" in the governmental funds, and are amounts due within the next operating cycle.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE B - CASH AND INVESTMENTS

At year end, the carrying amount of the district's cash and cash equivalents was \$325,727. Of the total cash balance, all was covered by Federal depository insurance or with collateral agreements and collateral held by the pledging bank's trust departments in the district's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2009 consisted of the following:

General Fund	\$ 263,184
FSPK Fund	17,832
Construction Fund	1,154
Capital Outlay Fund	<u>81,306</u>
	<u>\$ 363,476</u>

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds.

The District's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the District's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the District's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the District's name.

	<u>Categories</u>			<u>Reported Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Money Market	\$1,672,137			\$1,672,137

7

NOTE C - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as outstanding bonds represent the district's future obligations to make lease payments relating to the bonds issued by the City of Cloverport, Kentucky and by the Cloverport School District aggregating \$5,912,842.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE C - LEASE OBLIGATIONS AND BONDED DEBT (CONTINUED)

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1996	\$47,745	4.10% - 5.00%
1997	269,000	4.00% - 5.00%
1999	429,000	3.85% - 4.95%
2004	1,190,000	1.15% - 4.30%
2005	72,988	3.00% - 3.625%
2008	5,000,000	3.25%-3.85%

The district, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the City of Cloverport and the Cloverport School District to construct school facilities. The district has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1996, the Board entered into an “equipment lease and security agreement” with the Kentucky Inter-local School Transportation Association. The table below sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues.

In 1997, the Board entered into an “equipment lease and security agreement” with the Kentucky Inter-local School Transportation Association. The table below sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues.

In 1999, the Board entered into a loan agreement with the Kentucky School Construction Commission to renovate the former Superintendent’s Office to facilitate the Media Center and to purchase a building to relocate the Superintendent’s Office. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues.

In 2004, the Board entered into a loan agreement with the Kentucky School Construction Commission to refinance bonds issued in 1989 and 1995 and to raise revenue for renovations of school property. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues.

In 2005, the Board entered into a loan agreement with KISTA to finance the purchase of a new school bus. The table sets forth the amount to be paid by the Board for each year until maturity of all bond issues.

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE C - LEASE OBLIGATIONS AND BONDED DEBT (CONTINUED)

In 2008, the Board entered into a loan agreement with the Kentucky School Construction Commission to construct the school building and facilities. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues.

Changes in long-term debt were as follows:

	<u>1999</u>	<u>2004</u>	<u>2005</u>	<u>2008</u>	<u>Total</u>
Beginning balance	\$ 286,000	\$ 860,000	\$ 50,826	\$ 5,000,000	\$ 6,196,826
Additions	-0-	-0-	-0-	-0-	-0-
Deletions	22,000	90,000	6,984	165,000	283,984
Ending balance	<u>\$ 264,000</u>	<u>\$ 770,000</u>	<u>\$ 43,842</u>	<u>\$ 4,835,000</u>	<u>\$ 5,912,842</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the district, including amounts to be paid by the Commission, at June 30, 2009 for debt service (principal and interest) are as follows:

	<u>CLOVERPORT SCHOOL DISTRICT</u>		<u>KY SCHOOL CONSTRUCTION COMMISSION</u>		
<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009-10	73,944	34,914	214,251	177,075	500,184
2010-11	72,737	32,765	208,669	170,237	484,408
2011-12	74,691	30,446	215,926	163,255	484,318
2012-13	81,847	28,100	223,039	155,957	488,943
2013-14	83,201	25,282	230,553	148,394	487,430
2014-15	84,579	22,330	238,405	140,525	485,839
2015-16	80,062	19,180	245,938	132,341	477,521
2016-17	29,647	17,372	251,353	123,758	422,130
2017-18	30,205	16,255	260,795	114,545	421,800
2018-19	32,516	15,089	270,484	104,987	423,076
2019-20	35,841	14,031	254,159	95,512	399,543
2020-21	36,517	12,741	263,483	86,187	398,928
Thereafter	300,952	47,691	2,019,048	312,733	2,680,424
	<u>\$ 1,016,739</u>	<u>\$ 316,196</u>	<u>\$ 4,896,103</u>	<u>\$ 1,925,506</u>	<u>\$ 8,154,544</u>

CLOVERPORT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE D - INTERFUND RECEIVABLES AND PAYABLES

There were no inter-fund payable or receivable balances at June 30, 2009.

NOTE E - RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 9.855% plus 3.25% of the employee's gross earnings except for those District employees being paid from and participating in federally-funded programs. The district has no contribution requirement to KTRS. The District's total payroll for all employees during the year was \$2,012,542 and \$1,361,699 of such amount related to employees covered by the retirement plan.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a District contribution of 13.50% of the employee's total compensation subject to contribution. The contribution requirement for CERS for the year ended June 30, 2009, was \$134,869, which consisted of \$98,393 from the district and \$36,476 from employees. The district's total payroll for the year was \$2,038,019. The payroll for employees covered under CERS was \$728,829.

Benefits under both plans will vary based on financial compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE E - RETIREMENT PLANS (CONTINUED)

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2009 comprehensive annual financial reports.

As the board is only one of several employers participating in the plan, it is not practical to determine the board's portion of the unfunded past service cost or the vested benefits of the board's portion of the plan assets.

NOTE F - CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the district for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the district's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE G - INSURANCE AND RELATED ACTIVITIES

The district is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The district has purchased certain policies which are retrospectively rated which include worker's compensation insurance.

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association.

CLOVERPORT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE H - RISK MANAGEMENT (CONTINUED)

The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reasons by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE I – DEFERRED REVENUE

Grant funds are considered to be earned to the extent of expenditures made under the provision of the grant, and accordingly, when such funds are received they are recorded as deferred revenue until earned.

NOTE J - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at a risk for a substantial loss (contingency).

NOTE K – RESTRICTED FUND BALANCES

The General Fund restricted balances are as follows:

Sick Leave	\$ 20,637
Facilities Construction	<u>1,566,689</u>
	<u>\$ 1,587,326</u>

CLOVERPORT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

NOTE L – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

PRIMARY GOVERNMENT	Balance			Balance
	July 1, 2008	Additions	Deductions	June 30, 2009
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 72,650	\$ 73,900	\$ -0-	\$ 146,550
Total non-depreciable assets	72,650	73,900	-0-	146,550
Depreciable assets:				
Land improvements	91,418	-0-	74,418	17,000
Buildings and improvements	3,529,558	2,264,292	978,687	4,815,163
Technology equipment	302,737	66,006	182,804	185,939
Vehicles	354,842	79,086	-0-	433,928
General equipment	255,157	34,700	7,270	282,587
Total depreciable assets	4,533,712	2,444,084	1,243,179	5,734,617
Total capital assets	4,606,362	2,517,984	1,243,179	5,881,167
Accumulated depreciation:				
Land improvements	(8,116)	(924)	-0-	(9,040)
Buildings and improvements	(1,687,795)	(20,996)	(834,258)	(874,533)
Technology equipment	(281,494)	(23,006)	(182,429)	(122,071)
Vehicles	(279,744)	(15,541)	-0-	(295,285)
General equipment	(260,431)	(114,630)	34,802	(409,863)
Total accumulated depreciation	(2,517,580)	(175,097)	(981,885)	(1,710,792)
Governmental Capital assets, net	\$ 2,088,782	\$ 2,342,887	\$ 261,294	\$ 4,170,375
Business-type Activities:				
Depreciable assets:				
Buildings and improvements	\$ 9,327	\$ -0-	\$ 9,327	-0-
General equipment	43,428	28,080	23,912	47,596
Total capital assets	52,755	28,080	33,239	47,596
Accumulated depreciation:				
Buildings and improvements	(2,798)	(373)	(3,171)	-0-
Buildings and improvements	(43,353)	(1,656)	(23,912)	(21,097)
Total accumulated depreciation	(46,151)	(2,029)	(27,083)	(21,097)
Business-type Activities				
Capital assets, net	\$ 6,604	\$ 26,051	\$ 6,156	\$ 26,499

JUNE 30, 2009

NOTE L – CAPITAL ASSETS (CONTINUED)

Depreciation expense was allocated to governmental functions as follows:

Governmental Activities:						
		Instruction		\$ 143,270		
		Student support services		1,273		
		Instructional staff support services		2,700		
		District administration support		618		
		School administration support		5,081		
		Business support services		4,509		
		Plant operations and management		902		
		Student transportation		15,541		
		Community services		1,203		
				<u>\$ 175,097</u>		
Business-type Activities:						
		Buildings and improvements		373		
		General equipment		1,656		
				<u>\$ 2,029</u>		

NOTE M – STATE ON-BEHALF PAYMENTS

The state made \$521,700 worth of on-behalf payments for the Cloverport School District. On-behalf payments are not budgeted.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the District in estimating its fair value disclosures for financial instruments:

- Cash and cash equivalents: The carrying amounts reported in the statement of net assets approximate fair values because of the short maturities of those instruments.
- Investments: The fair values of investments are based on quoted market prices for those or similar investments.

JUNE 30, 2009

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of the District's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 363,476	\$ 363,476
Investments	1,672,137	1,672,137

The following table presents the District's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	<u>Fair Value Measurements at Reporting Date Using:</u>	
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<u>June 30, 2009</u>		
Money market investment accounts	<u>\$ 1,672,137</u>	<u>\$ 1,672,137</u>

NOTE O – SUBSEQUENT EVENTS POLICY

The District has evaluated subsequent events through November 6, 2009, the date which the financial statements were available to be issued.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
Members of the Cloverport School District
Cloverport, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cloverport School District, as of and for the year ended June 30, 2009, which collectively comprise the Districts' basic financial statements and have issued our report thereon dated November 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Guide for Auditing Local School Districts' Fiscal Records*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cloverport School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cloverport School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cloverport School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Cloverport School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of

Cloverport School District's financial statements that is more than inconsequential will not be prevented or detected by Cloverport School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting (2009-A; 2009-B).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Cloverport School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-B to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cloverport School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in section 3(9)(a)-(w) of the *Guide for Auditing Local School Districts Fiscal Records* that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Cloverport School District, in a separate letter dated November 6, 2009.

Cloverport School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Cloverport School District's response and, accordingly we express no opinion on it.

This report is intended solely for the information of management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Louisville, Kentucky
November 6, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Superintendent and Members of the Cloverport School District
Cloverport, Kentucky

Compliance

We have audited the compliance of Cloverport School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Cloverport School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Cloverport School District's management. Our responsibility is to express an opinion on Cloverport School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cloverport School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cloverport School District's compliance with those requirements.

In our opinion, Cloverport School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Cloverport School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cloverport School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Cloverport School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cloverport School District's internal control over compliance.

A *control deficiency* is an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and the use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Louisville, Kentucky
November 6, 2009

**CLOVERPORT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified?: X Yes No

* Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted: Yes X No

Federal Awards

Internal control over major programs:

* Significant deficiency(ies) identified: Yes X No

* Significant deficiency(ies) identified that are not considered to be material weaknesses Yes X No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: Yes X No

Identification of major programs:

CFDA 93.600	Headstart
CFDA 10.555 & 10.553	National School Lunch & Breakfast Program
CFDA 10.559 & 10.599	National School Summer Meals Program

Dollar threshold used to distinguish Between type A and B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

**CLOVERPORT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2009**

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

SIGNIFICANT DEFICIENCY

A. Finding 2009-A

Statement of Condition: Adequate segregation of duties was not in place among personnel.

Criteria: Controls should be in place to separate duties among personnel that prevents theft, embezzlement, and/or misappropriation of assets.

Effect of Condition: Segregation of duties were not in place and potential for fraud was present.

Cause of Condition: Due to the limited number of personnel at the District, the District has not established an adequate segregation of duties.

Recommendation: Procedures should be implemented requiring approval, recordkeeping and reconciliation to be completed by different employees.

Response: Management concurred with this recommendation, but due to limited staff and budgetary constraints proper segregation of duties was somewhat difficult, but they would take steps to improve their segregation of duties.

MATERIAL WEAKNESS

B. Finding 2009-B

Statement of Condition: Controls were not in place over the financial reporting process.

Criteria: Controls should be in place to monitor financial transactions and preparation of financial statements.

Effect of Condition: Control policies were not in place and financial reporting process was not reliable.

Cause of Condition: As is common in small school districts, the District has chosen to not employ personnel with the qualifications and training needed to prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America.

Recommendation: Management should review controls over the financial reporting process to ensure that financial transactions are properly recorded and financial statements are properly prepared. Employees should obtain the proper training and qualifications to perform their assigned duties.

Response: Management concurred with this recommendation, but due to limited staff and budgetary constraints the proper training may not be obtainable, but they will take steps to improve their training and knowledge of the financial reporting process.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

**CLOVERPORT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2009**

November 6, 2009

Cognizant or Oversight Agency for Audit

Cloverport School District respectfully submits the following corrective action plan for the year ended June 30, 2009.

Name and address of independent public accounting firm: Richardson, Pennington & Skinner,
PSC 513 South Second Street Louisville, KY 40202

Audit period: June 30, 2009

The findings from the November 6, 2009 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINANCIAL STATEMENT AUDIT FINDINGS

A. Finding 2009-A

Segregation of Duties: Due to the limited number of personnel, the District has not established adequate segregation of duties. Individuals in the accounting department have the ability to initiate transactions, record the transactions, and reconcile the related accounting records.

Recommendation: Procedures should be implemented requiring approval, recordkeeping and reconciliation to be done by different employees.

Action Taken: We concur with this recommendation, but due to limited staff and budgetary constraints proper segregation of duties may be difficult, but we will take steps to improve our segregation of duties. The district has hired a third person, effective October 2009, to assist in further segregating duties.

B. Finding 2009-B

Training and qualifications: As is common in small school districts, the District has chosen to not employ personnel with the qualifications and training needed to prepare its financial statements, complete with notes, in accordance with accounting principles generally accepted in the United States of America.

Recommendation: Procedures should be implemented to have employees obtain the proper training and qualifications to perform their assigned functions.

Action Taken: We concur with this recommendation, but due to limited staff and budgetary constraints the proper training may not be obtainable, but we will take steps to improve our training and knowledge of the accounting system. We have hired an

additional secretary in our office, which will allow for finance staff to attend additional trainings/meetings throughout the year in regard to improving in the area of school finance.

If the (Cognizant or Oversight Agency for Audit) has questions regarding this plan, please call Bill Talley at (502) 583-9587.

Sincerely yours,

John D. Millay, Superintendent

**CLOVERPORT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

U.S. DEPARTMENT OF AGRICULTURE

FINDING 2008-C: *Food Donations (Commodities) – CFDA No. 10.550*

Condition: This finding was a significant deficiency stating that commodities received during the year were not recorded.

Recommendation: The auditor informed the district that this would no longer be considered a significant deficiency.

Current Status: The issue was resolved as of the end of the fiscal year.